

White-labels, brands and trust: How mutual fund labels affect retirement portfolios

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Introduction

Finance theory assumes that investors maximize risk-adjusted returns when choosing portfolios. In reality, some people are also influenced by irrelevant factors such as cosmetic changes to investment fund names. Retirement plan menus have been changing as sponsors adopt new generic, or “white-label,” funds. This study explores how plan participants react to white-label and branded investment options, and, specifically, how brand trust alters participants’ allocations to them. In addition, the study examines the impact of brand trust on expected returns and risk perceptions. The findings have important implications for both fund providers and plan sponsors.

What are white-label funds?

The popularity of white-label funds in retirement plans motivated this research. In 2014, it was estimated that 25% of retirement plans offered white-label fund options (Hewitt, 2014).

White-label funds are constructed in a variety of ways. They can consist of only one underlying mutual fund or a complex combination of different asset types including collective investment trusts (CITs), separate accounts, mutual funds and recordkeeping solutions. Importantly, a white-label fund may have several branded funds underlying it. For example, a white-label large cap equity fund could include multiple large cap mutual funds managed by more than one firm.

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Plan sponsors find white-label funds attractive for a variety of reasons. Bare, Kloefer, Lucas and Veneruso (2017) highlight why these funds are attracting attention from plans. Some of the reasons they discuss include:

Flexibility in design: As mentioned earlier, plan sponsors can combine a variety of fund types into an option that is tailored to the plan's participants. They also can include different investment strategies, such as active and passive management, into one fund.

Scalable capacity: Often, large retirement plans face issues with the size constraints of active fund managers. As a result, a large retirement plan may be forced to offer several very similar funds in its stand-alone menu. Plan sponsors are concerned that the large size of the menu and similarity of some options could lead to participant confusion. By including all the funds under one white-label option, plan sponsors can simplify their offerings and avoid the choice overload problem.

Cost control: Some funds are too expensive to include as a stand-alone option in a retirement plan investment menu, but white-label funds provide plan sponsors the opportunity to include them under a white-label fund in a cost-conscious way. By combining the expensive funds with lower-fee funds, participants investing in the white-label fund can benefit from the added diversification but not suffer from outsized fees.

Relative simplicity of removing funds: Removing a brand name fund from a stand-alone investment menu can be difficult if participants are connected to the brand.

This is not the case for white-label funds where participants typically do not know the underlying composition of their white-label option. As a result, if a portfolio manager leaves or if performance lags in one of the underlying funds, plan sponsors can react quickly to remove the branded fund and replace it with another, often with the participant unaware of the change.

Bare, et. al. (2017) also highlight some drawbacks related to white-label funds that are summarized here:

Plan sponsor liability: Plan sponsors are liable for the investment decisions related to the white-label fund construction. As choosing managers and setting portfolio allocations are fiduciary decisions, plan sponsors must make sure to carefully document the fiduciary processes they employ to construct the funds. Plan sponsors may need to seek additional help from the outside or hire additional staff to ensure that they have established sufficient fiduciary protections.

Additional operational requirements: On top of designing and implementing the white-label funds, plan sponsors must also continually monitor them. Depending on how the funds are made, the sponsors may need to pay their plan's recordkeeper or trust/custodian for add-on services. The operational items may also require additional resources to carry out.

Need for participant education and customized communications: These funds generate a need for participant education, as well as customized communications. Both can be expensive and time consuming to implement. Communication can include disseminating customized fund fact sheets that report fund performance for the white-label options and information about the funds underlying those same options.

Retirement plans can include white-label funds in their menus in a variety of ways. They can be the only offerings in the investment menu or offered alongside branded options. In addition, plans can use the employer's name in the white-label name. This is, in effect, branding the fund to the employer.

Plan menus and fund names: Why might they matter?

Past research shows that investors can be influenced by irrelevant factors when making asset allocation decisions. For example, research using administrative data from retirement plans shows that participants sometimes follow naïve diversification strategies that are affected by the size of the investment menu (Agnew, 2006; Huberman and Jiang, 2006; Benartzi and Thaler,

2001). Other investors tilt their portfolios toward certain asset classes because funds within that class are more prevalent in the investment menus (Brown, Liang and Weisbenner, 2007; Tang, Mitchell, Mottola and Utkus, 2010).

Fund names can also influence investors. Cooper, Gulen and Rau (2005) find that funds that make cosmetic changes to their name by adding a popular investment style to their name attract significant inflows even when the fund does not follow the style. In addition, Green and Jame (2013) find that fluent fund names, which are typically short and easy to pronounce, attract a broader group of investors, while other researchers find that investors are attracted to investments that are familiar or that they feel loyal to the company, such as local companies and company stock (Agnew, 2006; Benartzi, 2001; Cohen, 2009; Huberman, 2001). The name of the fund's investment manager may also draw flows. Sialm and Thalm (2015) find that investment management companies' past stock performances are related to inflows to their specific funds even though the individual fund performance may be unrelated to the company's overall performance. This spillover effect from the management company's brand to the funds is found only when individual funds are labeled with the name of the management company.

Taken together, this research motivates our study by suggesting that menu shifts induced by the introduction of white-label funds or relabeling of fund names could affect the allocations of individuals for a variety of reasons. In addition, the inclusion of an employer's name in the white-label fund's name could also affect inflows depending on the employee's relationship with the firm.

Research design and data

Informed by two focus groups facilitated by Distillery Inc., we designed and fielded two online experiments engaging 940 currently employed retirement plan participants from the University of Southern California's Understanding America Study panel. Participants made incentivized investment allocations and predicted investment returns using distribution builders. Study one compared white-label investment options with otherwise equivalent highly-

(poorly-) trusted branded investment options. Study two compared white-label investment options with investment options labelled with an employer's name.

In both studies, we provided participants with descriptions of different fund types and explained the naming convention before they made their allocations. In study one, participants were told that funds could be managed by one or more portfolio managers. If a professional investment company name preceded the fund name, then that company managed the fund. If "White-label" preceded the fund name, then it was a fund put together for the employer's retirement plan and given a generic name. Participants were advised that one or more mutual funds could be held within that fund.

For study two, these instructions were slightly modified. In study two, participants were provided a menu with employer-branded white-label funds and generic white-label funds. Participants were given almost identical descriptions of the two types of funds: namely that the funds were put together for their employers' retirement plan and could include one or more mutual funds. The main difference was the naming convention. Like the previous study, funds were named based on their asset class. However, in study two, that name was either preceded by the employer's name or preceded by the generic term "white-label."

In both studies, we asked participants to imagine that their employer had started a new retirement plan and that they needed to allocate a hypothetical retirement account across a variety of assets. The funds that participants could choose from depended on which study the participant was randomly enrolled in. In all cases, the menu included two Money Market funds, two U.S Bond Index funds, two U.S. Large Cap Index funds, two U.S. Small Cap Index funds, and two non-U.S. Global Index funds. Within each asset class, one fund was a branded fund and the other was a white label. To incentivize this exercise, we told participants that two people would be randomly selected to earn a bonus based on their allocations and invited them to click a link to a more detailed description of the bonus calculation.

The allocation forms closely resembled retirement plan fund selection forms. Importantly, participants were instructed to assume that investment fees for all the funds were waived. As the fees were all zero and the investments were all index funds, participants should not have had a preference between the branded and white-label funds within each investment category.

Following the allocation task, participants' expectations of each branded fund's risk and return were gathered using a graphical interface called a distribution builder. As portfolio theory suggests expected returns and risk should drive allocation decisions, these estimates should be informative. For each fund, we told investors they had \$100,000 to invest in that fund for one year. We then asked what the investment would be worth in one year. Participants placed balls in different bins to show how likely they thought different outcomes could be. From participant responses, we calculated expected returns and risk. Participants were not directly asked these statistics, as research demonstrates that more accurate responses are obtained through graphical methods like this (Goldstein and Rothschild, 2014).

The survey ended with several questions designed to explore participants' risk tolerance levels, personal assessment of their own investment knowledge, and engagement with investment picking. We also ask the

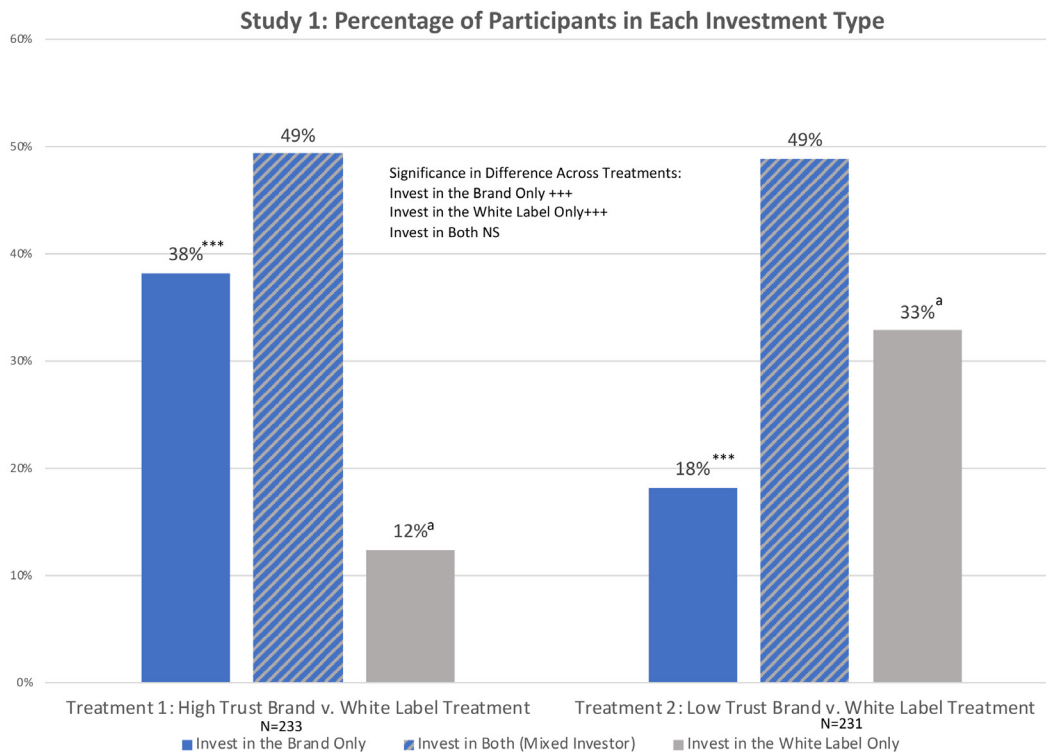
degree to which the participant trusts several different items. Using a seven point scale where 1 is "I do not trust at all" and 7 is "I trust completely," we inquire about trust in the stock market, banks, insurance companies, stock brokers, investment advisers, their employer, their employer's retirement plan, and people in general.

Study one menu and results

In study one, we placed participants randomly in one of two treatments. The menu for participants in Treatment 1 included a highly trusted brand option for each asset class and a white-label option for each asset class. The menu for participants in Treatment 2 included a poorly trusted brand option for each asset class and a white-label option for each asset class. We selected the high-trust brand and low-trust brand from a list of six large investment company brands during a pretest.

The results from the analysis were quite striking. First, based on their investment allocation decisions, investors can be divided into three investment types: those that invest their entire account to the brand option (brand only), those that invest in the brand options and the white-label options (mixed), and those that invest only in the white-label option (white-label only).

Figure 1. Investor types by treatment (study one)



Notes:

Stars above the brand-only solid blue bars report the significance of within-treatment tests of the differences between the percentage of participants in each investor type. NS Not Significant, *** Significant at the 1% level, ** Significant at the 5% level, * Significant at the 10% level. Letters above the white label-only gray bars report the significance of within-treatment tests of the differences between the percentage of brand-only investors and the percentage of white label-only investors. NS Not Significant, “a” Significant at the 1% level, “b” Significant at the 5% level, “c” Significant at the 10% level. The text box overlaid on the table reports the significance of differences across treatments related to investor types (brand only v. brand only; white label v. white label, mixed v. mixed): NS Not Significant, +++Significant at the 1% level, ++Significant at the 5% level, +Significant at the 10% level.

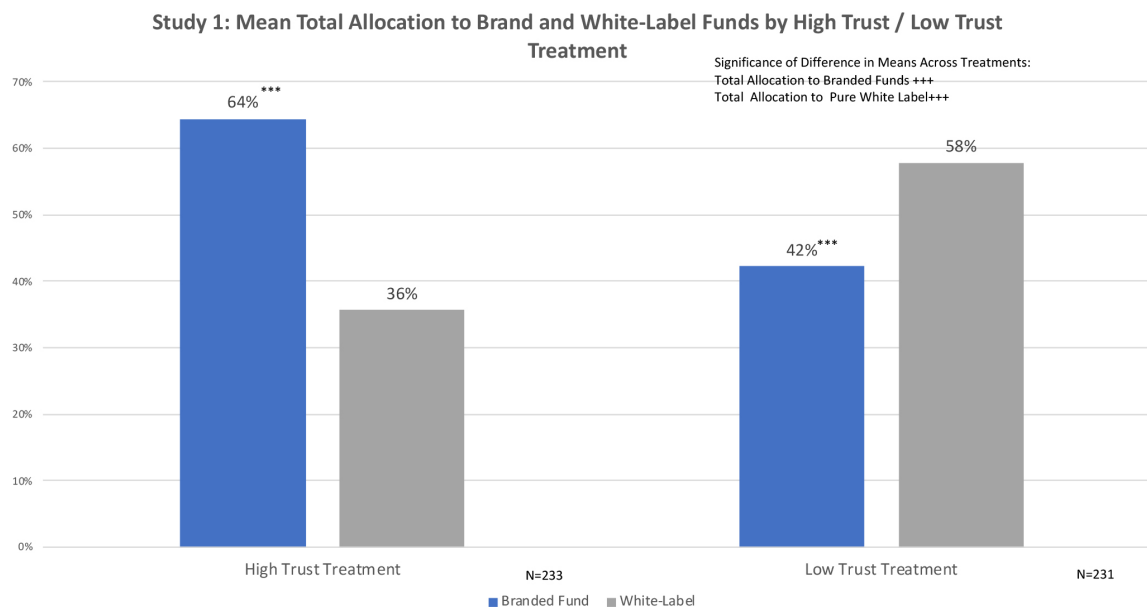
Figure 1 above presents the percentage of participants that fall into the three investor categories. If brand trust matters, we should observe that, relative to white-label fund investments, more is invested in funds that are highly trusted and relatively less is invested in the low-trust brands. The results are consistent with these predictions. Within the treatments, the differences in the percentage of investors invested only in the brand option or only in the white-label option are significantly different. For the high-trust treatment, 38% of the participants invest everything in the high-trust brand versus 12% who

put everything in the white-label option. In contrast, only 18% invest everything in the low-trust brand relative to the 33% that put everything in the white-label option. The remaining 50% of participants in each of these treatments—high trust and low trust—are mixed investors. Comparing across both treatments, the difference between total brand allocators is also significant. We find a difference of 38% (high trust) versus 18% (low trust) when comparing the brand-only investors. Regression analysis controlling for demographics, financial literacy and brand measures, confirms this finding.

These findings are reinforced when looking closer at the average asset allocations to the brand and white-label funds. Figure 2 below shows that the average allocation to all branded funds is 64% in the high-trust treatment compared to 42% in the low-trust treatment. In addition, the average allocation to white-label funds in the first

treatment is lower than those to the high-trust brand (36% to white label versus 64% to high trust), but this pattern reverses in the low-trust treatment (58% to white label versus 42% to low trust), and all the differences are significant.

Figure 2. Comparison of allocations between brand and white-label funds (study one)



Notes:

Stars above the branded fund solid blue bars report the significance of within-treatment tests of the differences between the mean allocations to branded funds and white-label funds. NS Not Significant, ***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level. The text box overlaid on the table reports the significance of differences in mean allocations across treatments comparing brand v. brand and white label v. white label. NS Not Significant, +++Significant at the 1% level, ++Significant at the 5% level, +Significant at the 10% level.

Drilling down to the individual fund level in Table 1, the pattern observed in Figure 3 remains for each asset class. In the high-trust treatment, the high-trust brand garners higher allocations than the white label for every asset class (see first two data columns in the table). The differences within asset class are significant. For the low-trust treatment, allocations to the white-label funds are significantly higher in every asset class except for the

money market fund. Comparing across both treatments in the last two columns of the table, the average difference in allocations between the high-trust brand and the low-trust brand are also significant, with the high-trust brand always achieving larger allocations. These findings are confirmed by regression estimations of the fraction invested to the brand in total and by fund.

Table 1. A closer look at asset allocation to individual funds in study one

Fund Allocation	Mean Allocations to Each Fund & Within-Treatment Comparisons								Across Treatment Comparisons	
	High Trust Treatment (N=233)				Low Trust Treatment (N=231)				High Trust Brand v. Low Trust Brand	White-Label v. White-Label
	High Trust Brand	White-Label	High Trust v. White-Label	Total: White-Label & Brand	Low Trust Brand	White-Label	Low Trust v. White-Label	Total: White-Label & Brand		
Money Market	17%	10%	a	27%	12%	15%		28%	b	a
Bond	10%	5%	a	14%	6%	8%	c	14%	a	a
Large Equity	18%	9%	a	26%	11%	15%	a	26%	a	a
Small Equity	10%	6%	a	16%	8%	10%	c	18%	b	a
Global Equity	9%	6%	a	16%	5%	9%	a	14%	a	a
Total Allocations	64%	36%	a		42%	58%	a		a	a

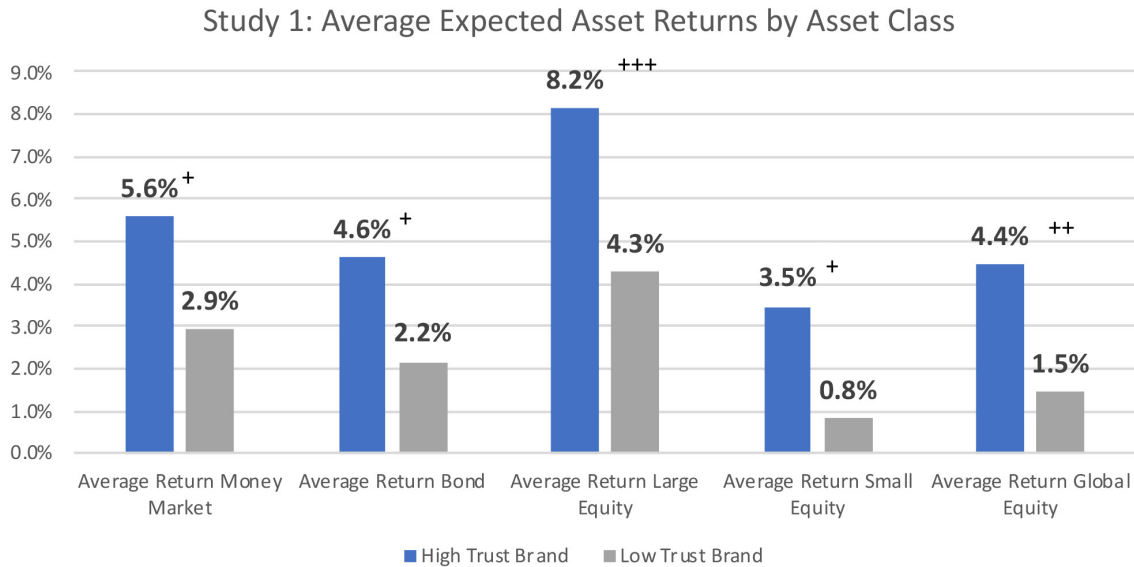
Note: “a” denotes significance ($p \leq .01$), “b” denotes significance ($p \leq .05$), “c” denotes significance ($p \leq .1$), a blank denotes non-significance ($p > .1$)

Finally, brand trust also affects participants’ expectations of fund returns and perceived risk. We calculate the participants’ expected returns and the expected probability that the investment will lose money based on participants’ decisions in the distribution builder task.¹ Figure 3 below shows the differences between the expected returns for the high-trust brand and the low-

trust brand by asset class. Likewise, Figure 4 shows the differences between the expected probability of loss for the high-trust versus the low-trust brand by asset class. In every case, the expected return is significantly higher and the expected probability of loss is lower for the high-trust brand.

¹ We approximate expected returns by weighting the returns implied by the mid-points of bin ranges with the probabilities set by the bin allocated.

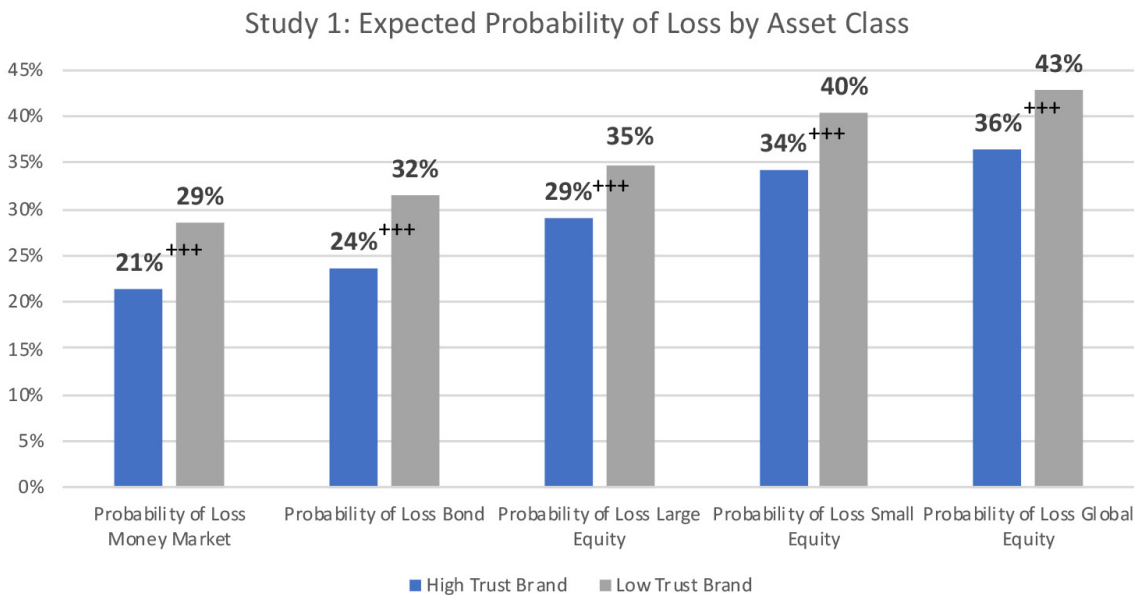
Figure 3. Predicted asset returns by treatment and asset class (study one)



Notes:

The pluses (+) above the high-trust fund solid blue bars report the significance of the across-treatment tests of the differences between the average expected asset returns to branded funds and white-label funds. NS Not Significant, +++Significant at the 1% level, ++Significant at the 5% level, + Significant at the 10% level.

Figure 4. Expected losses by treatment and asset class (study one)



Notes:

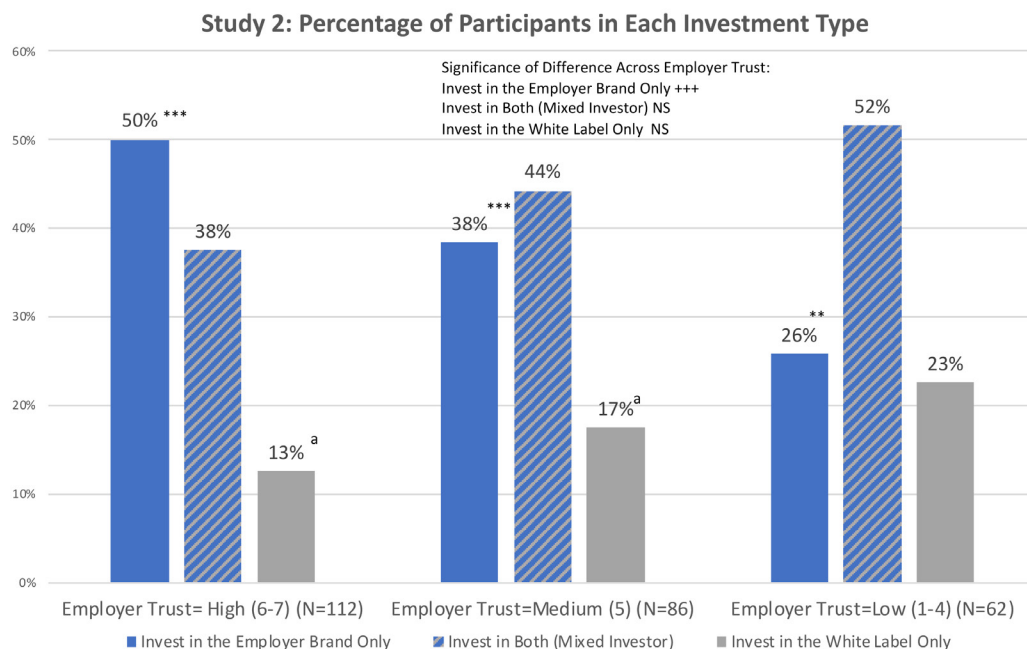
The pluses (+) above the high-trust fund solid blue bars report the significance of the across-treatment tests of the differences between the expected probability of loss to branded funds and white-label funds. NS Not Significant, +++Significant at the 1% level, ++Significant at the 5% level, + Significant at the 10% level.

Study two results

In study two, the menu for participants included what we refer to as a “pure” white-label fund option (because the fund is not associated with any firm or company) and white-label funds that include the employer’s name in the funds’ names. At the start of the survey, participants provided the initials or nickname of their employer. The survey was designed so the inputs from those answers were piped into the fund’s names as they proceeded through the experiment. Thus, each employer-named fund was personalized to the participant. In addition, participants in the survey rate the degree to which they trust their employer on a seven-point scale where 1 is “I do not trust at all” and 7 is “I trust completely.” We categorize participants based on their responses into three groups: Employer Trust=High (6-7), Employer Trust=Medium (5), and Employer Trust=Low (1-4). The hypothesis tested is that trust in the employer matters in much the same way as brand trust mattered in the first study.

The analysis runs parallel to study one. We once again show in Figure 5 below the percentage of participants in each investment type. For those who have a high level of trust in their employers, 50% of the group invest everything in the employer brand. This compares to 38% in the medium employer-trust group and 26% in the low employer-trust group. For both high employer-trust and medium employer-trust participants, those percentages are significantly greater than the percentage of white label-only investors in the same trust category. In the low employer-trust category, there is no significant difference between the proportion of participants who allocate everything to the white-label fund and the proportion who allocate everything to the employer fund. We also find that the percentage of employer brand-only investors is significantly different across employer trust levels (see the overlaid text box for significance).

Figure 5. Investor types by treatment (study two)



Notes:

Stars above the brand-only solid blue bars report the significance of within-trust category tests of the differences between the percentage of participants in each investor type. NS Not Significant, ***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level.

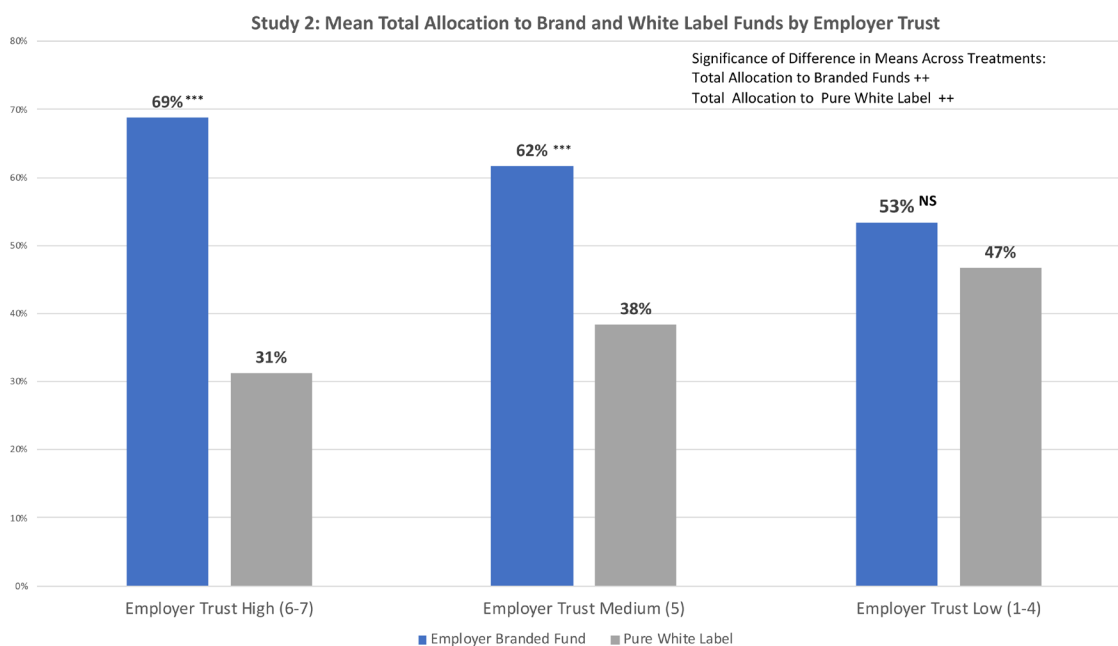
Letters above the white label-only gray bars report the significance of within-trust category tests of the differences between the percentage of brand-only investors and the percentage of white label-only investors. NS Not Significant, “a” Significant at the 1% level, “b” Significant at the 5% level, “c” Significant at the 10% level.

The text box overlaid on the table reports the significance of differences across treatments related to investor types (brand only v. brand only; white label v. white label, mixed v. mixed): NS Not Significant, +++Significant at the 1% level, ++Significant at the 5% level, +Significant at the 10% level.

In Figure 6, we examine the mean total allocation to the employer-branded fund by employer trust category. Consistent with the results above, the mean total allocations fall as employer trust declines. In addition, within trust groups, the difference between the employer-branded fund and the pure white-label fund is significant

for both the high and medium employer-trust categories. The difference in the low employer-trust category is not significant. Across trust categories, the allocations to employer-branded funds are significantly different. These findings are once again consistent with the previous study and our hypotheses.

Figure 6. Comparison of allocations between brand and white-label funds (study two)



Notes:

Stars above the branded-fund solid blue bars report the significance of within-trust category tests of the differences between the mean allocations to branded funds and white-label funds. NS Not Significant, ***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level.

The text box overlaid on the table reports the significance of differences in mean allocations across treatments comparing brand v. brand and white label v. white label. NS Not Significant, +++Significant at the 1% level, ++Significant at the 5% level, +Significant at the 10% level.

Table 2 reports the allocations to each individual asset class fund. Within the high employer-trust category, the difference between mean allocations to the employer-brand funds and the white-label funds are significantly different. For all asset classes, the highly trusted employer fund receives higher mean allocations. For the participants in the medium employer-trust category, the differences between funds are less strong but still significant (except for global equity) and in the same

direction in every case. However, no significant difference is found in the low-trust category. When looking at the sum of the branded investments and white-label investments per trust category (last row of the table), we do find significant differences across trust categories. However, these differences lose significance when drilling down to the asset class level. Additional research with a larger sample is needed to confirm or refute these findings.

Table 2. A closer look at asset allocation to individual funds in study two

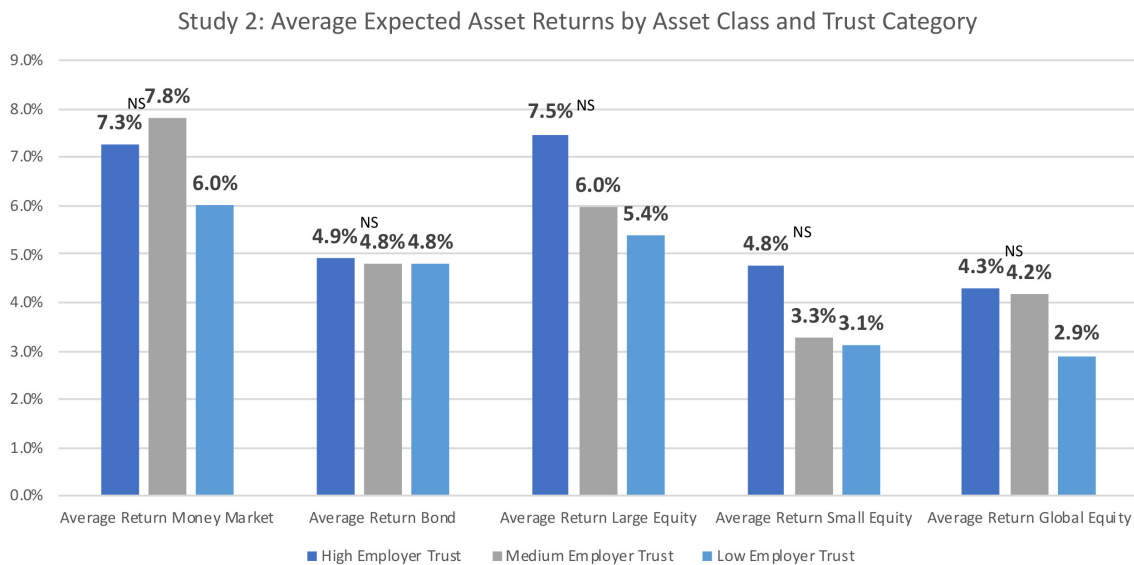
Fund Allocation	Mean Allocations to Each Fund Within Trust Categories and Significance Tests												Across Trust Categories	
	Employer Trust High (6-7) (N=112)				Employer Trust Medium (5) (N=86)				Employer Trust Low (1-4) (N=62)				Employer Branded v. Employer Branded	White-Label v. White-Label
	Employer Branded	White-Label	Employer Branded v. White-Label	Total: White-Label & Employer Branded	Employer Branded	White-Label	Employer Branded v. White-Label	Total: White-Label & Employer Branded	Employer Branded	White-Label	Employer Branded v. White-Label	Total: White-Label & Employer Branded		
Money Market	20%	6%	a	26%	16%	9%	c	25%	14%	12%		26%		
Bond	9%	4%	a	13%	10%	5%	b	15%	9%	7%		15%		
Large Equity	18%	10%	a	27%	18%	13%	c	31%	15%	13%		27%		
Small Equity	11%	6%	a	18%	10%	6%	b	17%	8%	9%		17%	c	
Global Equity	10%	5%	a	16%	7%	5%		12%	9%	7%		15%		
Total Allocations	69%	31%	a	100%	62%	38%	a	100%	53%	47%		100%	a	b

Note: "a" denotes significance ($p \leq .01$), "b" denotes significance ($p \leq .05$), "c" denotes significance ($p \leq .1$), a blank denotes non-significance ($p > .1$)

Figure 7 reports the mean average returns and Figure 8 the mean probability of loss for each of the asset classes. These were all estimated for the employer brand. In most cases, the expected average returns are greater for the high- and medium-trusted employers versus the low-trust employers. However, sometimes the expectations for the medium-trusted employers is above the high trust. There is no statistical difference between

the trust category within any of the asset classes. Therefore, while we measure higher expected returns for medium- and high-trusted employers compared to low-trusted employers as we would expect, there is no significant difference between high- and medium-trust groups. This could be because of the small sample size, and further studies are planned to confirm this finding.

Figure 7. Predicted asset returns by treatment and asset class (study two)



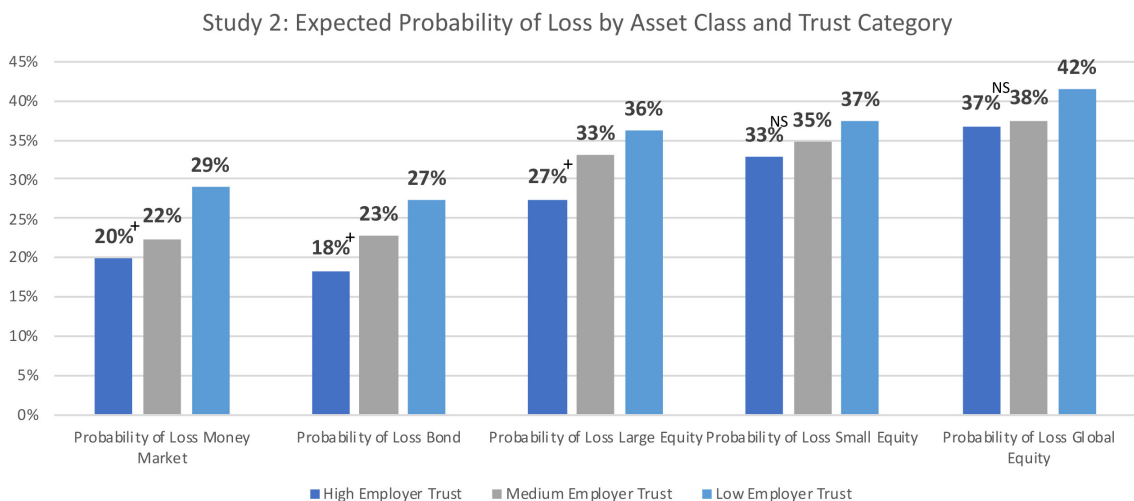
Notes:

The NS above the high employer-trust fund solid blue bars denotes that there is not a significant difference between the average expected asset returns to employer-branded funds and white-label funds within each asset class.

As far as expected risk shown in Figure 8, the orderings are reversed for the probability of loss measures, as would be anticipated. In addition, we find the hypothesis test that the average loss probabilities are similar across the three trust groups is rejected at the 10% level for

money markets, bonds, and large equity. We do not find a significant difference between small equity and global equity across trust treatments. This again needs to be confirmed with a larger sample.

Figure 8. Expected losses by treatment and asset class (study one)



Notes:

The pluses (+) above the high employer-trust solid blue bars report the significance of the across-treatment tests of the differences between the expected probability of loss to employer-branded funds and white-label funds within each asset class. NS Not Significant, +++Significant at the 1% level, ++Significant at the 5% level, +Significant at the 10% level.

Summary and implications

This study explores how plan participants react to white-label and branded options, and, specifically, how brand trust alters participants' allocations to them. Motivated by research showing that people are often influenced by irrelevant factors when making financial decisions, the study investigates how the growing trend of adopting white-label funds in retirement plan menus may affect investment allocations.

We find several interesting results with real world implications. They are:

Brand trust affects asset allocations. In both studies, brand trust plays a large role in asset allocations. Participants allocate significantly more to trusted brands when choosing between otherwise equivalent investment options. Specifically, in study one, options showing highly trusted brand names are more attractive than equivalent white-label options, and the reverse holds for poorly trusted brand names. It follows that highly trusted brands could capitalize by displaying their names on investment options while less-trusted brands could consider generic labelling.

Employer trust affects asset allocations. In the second study, options showing the names of highly trusted employers are more attractive to plan participants than equivalent white-label options. It follows that plan sponsors could consider adding the names of trusted employers to white-label options if their goal is to increase fund flows to these options.

Perceptions of expected return and risk affected by brand trust. In both studies, we find evidence that participants expect higher risk-adjusted returns and lower risk from options that display the name of a highly trusted brand or highly trusted employer. While the effects in study two (employer brand) are not as consistent nor as strong as in study one, they suggest that brand trust may influence these expectations, and more research is needed to confirm or refute this finding.

This study opens up many future avenues of research. Future work should test the findings using administrative data, as well as explore whether menus presenting branded funds in separate asset classes from one another can alter overall allocations across funds. Importantly, this paper identifies brand trust as another factor plan sponsors should consider when constructing their fund menus.

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